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Note on Currency: In this Annual Report, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in United States dollars.

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LETTER TO SHAREHOLDERS

Virtually all of this fiscal year's activities have centered around events related to The Equion Corporation. Over the course of fiscal year 1996, we have divested the TCI and Trans-Tool divisions, and the Hayden Engine Driveline product line. Shortly after year end, we also completed the first part of a two-stage closing of the sale of our Hayden Aftermarket Cooling business. The second stage of that transaction is scheduled to occur in December 1996. Maximizing value to shareholders by identifying the most strategic buyer for each unit, each of the above-noted transactions was completed with a different acquirer. Details of each sale were announced at the time and are reviewed elsewhere in this report.

Once the sale of the Aftermarket Cooling business is completed, all that will remain of Equion's operations will be Hayden Industrial Products. This remaining segment of the business provides heat exchange systems and components for heavy industry, as well as vehicular systems and components for truck manufacturers and other off-highway users. It is management's intention to retain these operations with a view to using them as a foundation on which to build through internal growth and acquisition.

The other major Equion event this past year was the repurchase of the entire minority interest. Completed in May 1996, shares representing about 30% of Equion were repurchased for total consideration of $12.8 million. This was based on an agreed valuation of Equion of about $42 million. As a result of the various Equion divestitures, and even after buying out the minority interest, the Company had substantial cash resources and elected to repurchase all of its outstanding preferred shares for about $5 million. This will result in a reduction of annual dividend payments of over $400,000.

With respect to the Company's historical businesses, we are pleased to report the successful sale of our last remaining unit in Symphony Place, which occurred during the first quarter of fiscal 1997 — nearly ten years after the project launch in January 1987. It is significant to note that the selling price achieved in 1996 is well below the original opening and ensuing prices at which most of the units sold a decade ago. Similarly, our Whitby lands continue to be plagued by very soft market conditions generally, and in Durham Region in particular. This has prompted management to further writedown the value of this property on the Company's books. We continue to explore alternatives, including joint venture opportunities with other developers. Perhaps the most encouraging piece of old business pertains to the continuing improvement to hotel operations and profitability. Although this asset is listed for sale, efforts in this regard continue to be hampered by a timid banking environment.

It will come as no surprise to shareholders to learn that the coming months will entail much reflection on the part of management and the Company's board of directors to chart a course for the future. The past 18 months have brought a series of changes that were both unanticipated and, for the most part, fortuitous. Nonetheless, the Company now finds itself in need of a future business direction that will earn the confidence and support of its shareholders.

SAM REISMAN
Chairman and Chief Executive Officer

STEPHEN R. MORRISON
President

BUSINESS REVIEW

Overview

Enscor's principal operating business is carried on through its U.S. subsidiary, The Equion Corporation. Approximately 70% of Equion was acquired in May 1993, and the remainder during fiscal 1996. Equion currently manufactures and distributes cooling systems for the vehicular and industrial marketplace. Other related businesses have been sold, as described below.

Prior to 1993, the Company concentrated its operations on real estate development within the Greater Metropolitan Toronto commutershed. Activities included development and sale of land, marketing and building of low and high-rise residential properties, and the development of commercial sites for retention or sale. The Company began an orderly withdrawal from the industry commencing in late 1991 and currently maintains only residual operations.

Automotive

On July 31, 1995, Equion completed the sale of Signet Systems, one of its four U.S. divisions, together with Signet AutoAir, an 80% owned German subsidiary. Signet and Signet AutoAir manufactured climate control systems and components, primarily serving original equipment manufacturers. In the fall of 1995, stimulated by the express desire of its minority shareholders to have their shares repurchased, Equion initiated a process to sell its remaining aftermarket and industrial businesses.

During fiscal 1996, the TCI and Trans-Tool divisions were sold, along with Hayden's aftermarket engine driveline product line. TCI manufactured and marketed high-performance automotive products, while Trans-Tool manufactured and marketed specialty transmission repair tools and garage equipment. As at July 31, 1996, remaining operations consisted of Hayden's industrial and aftermarket cooling businesses. In August 1996, Equion completed the first of a two-stage sale of the aftermarket cooling business. Completion of the second stage is expected to occur before the end of calendar 1996. Although a conditional letter of intent had been signed for the sale of the industrial cooling business, the transaction did not proceed. There are no current plans to sell this business unit.

Cooling Systems

(Ongoing operations)

Hayden's industrial cooling products business, based in California, manufactures and markets heat exchange systems and components for original equipment manufacturers and distributors. In addition to oil coolers sold to OEMs in the truck sector, Hayden sells a broad line of heat exchangers and accessories to industrial OEMs and to fluid power distributors. Most of Hayden's products are highly engineered, designed for specific applications or in response to specific customer needs.

Real Estate

During the year, the Company continued to liquidate its residual real estate holdings. Two condominiums and one land site were sold, leaving one condominium unit and one land development site in inventory. The last condominium unit, in downtown Toronto, was sold in October 1996. The land project is located in Whitby, bordering Metropolitan Toronto.

During 1996, the Company continued to advance the development status of its Whitby project. The 150 acre property is draft plan approved, fronts on Lake Ontario, is close to commuter transportation, and will provide an excellent location for a high-quality residential community for the local Whitby market. The project is expected to yield approximately 530 low, medium, and high-density residential units which could be built commencing in 1997. A sale of the site or a joint venture is presently being explored, failing which the Company intends to install services and sell lots to builders.

Hotel

The Best Western Hidden Valley Resort Hotel, located in Huntsville, Ontario, completed its best year since its acquisition in 1988, resulting in a 53% occupancy level and $0.45 million of operating cash flow. The mid-1992 renovation, completed in conjunction with the Best Western affiliation, together with the early 1993 inauguration of the Golden Griddle franchise, have assisted management in generating steadily improving occupancy levels, cost efficiencies, and bottom line results. As previously reported, the Company has listed the hotel for sale. Any offers will be evaluated in the context of the hotel's continuing performance improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

On July 31, 1995, The Equion Corporation ("Equion"), 70% owned by the Company at that time, sold its Signet Systems Inc. ("Signet") division, together with its 80% owned European subsidiary, Signet AutoAir Klimaanlagen GmbH ("Signet AutoAir") (the "Signet Sale"). Equion, a U.S. manufacturer and supplier of automotive systems and components for the original equipment and industrial markets and the aftermarket, was acquired by the Company in May 1993 by way of merger. Signet and Signet AutoAir primarily served original equipment manufacturers. Following the Signet Sale, the Company announced that offers would be solicited for the remaining aftermarket and industrial businesses (the "Aftermarket" businesses) which were carried on through three divisions: TCI; Trans-Tool; and Hayden. In December 1995, TCI was sold, followed by Trans-Tool in February 1996 and Hayden's engine driveline product line in April 1996. As at July 31, 1996, remaining operations consisted of Hayden's industrial and aftermarket cooling businesses. In August 1996, the Company completed the first of a two-stage sale of the aftermarket cooling business. Subject to the satisfaction of certain closing conditions, completion of the second stage is expected to occur before the end of calendar 1996.

During the fiscal year, Equion repurchased all of the shares held by its minority shareholders for $12.8 million. (As a result, Equion is now wholly-owned by Enscor.) In a related transaction with one of those minority shareholders (Equion's former chief executive officer), Enscor repurchased 477,931 of its common shares at $1.10 Cdn. per share and prepaid a $0.6 million promissory note. Also during 1996, Enscor redeemed all of its outstanding preferred shares for $5.0 million. The foregoing transactions were all funded by surplus cash resources.

In 1993, the Company adopted the U.S. dollar as a basis for reporting results. As well, effective July 31, 1993, the Company changed its fiscal year end from December 31 to July 31. The Company's audited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (see note 14 to the Statements for a reconciliation to U.S. generally accepted accounting principles).

Financial Condition, Liquidity, and Capital Resources

At July 31, 1996, the Company's working capital was $20.3 million (of which $18.6 million was attributable to Equion), representing a decrease of $14.5 million from the $34.8 million level at July 31, 1995. A combination of factors accounted for the reduction. The 1996 net loss of $4.2 million after preferred dividends generated positive working capital after taking into account $9.1 million of non-cash charges including $1.8 million of depreciation, $3.2 million of goodwill and other amortization in connection with Equion's sales of its business units, a $3.2 million write-down of real estate holdings, and a $0.9 million minority interest charge. This net increase was offset by $12.8 million paid to acquire the minority shareholders' interests, $5.0 million paid to redeem all of the Company's preferred shares, $0.6 million of capital expenditures, the impact of capital assets sold and long-term debt assumed in connection with this year's sales of Equion's business units, and the reduction of long-term debt to reflect the portion currently due and/or which has been repaid.

Long-term debt at July 31, 1996 decreased to $2.3 million from $7.0 million last year. Most of the reduction resulted from prepayments, using surplus cash resources. Substantially all of the remaining debt is due during the 1997 fiscal year.

As at July 31, 1996, the Company had $10.9 million of cash and short term investments, substantially unchanged from July 31, 1995. However, the restricted portion of the cash was reduced from $2.2 million last year to $0.5 million this year, due to the sale of Equion's business units. The Company believes that its unrestricted cash position and operating cash flows are sufficient to meet all cash commitments and forecasted demands.

Results of Operations

1996 versus 1995

Summary

Revenues for 1996 were $57 million, versus $141 million last year. The decrease is primarily attributable to the Equion operations which have been sold commencing in July 1995. An operating loss of $5.5 million was recorded this year, compared with a loss of $3.1 million in 1995. After including the gain on disposal of the Equion assets together with other related charges, a net loss of $3.7 million was incurred this year, versus $9.3 million of net earnings in 1995.

Automotive

Automotive revenues decreased from $139 million last year to $53 million this year. The decrease is attributable to Equion's sales to date of its business units. Excluding these operations which have been sold, there has been a 9% increase on a comparable year-over-year basis. This increase is primarily attributable to new customers and additional products at Hayden.

A gross margin of 24.9% was achieved, compared to 25.1% in the prior year (28.0% for the comparable remaining operations). Margins this year have been impacted by a provision of $0.5 million (approximately 1.0 percentage point of gross margin) for certain obsolete inventory categories at both Hayden and Trans-Tool. In addition, this year's margins have been affected by higher raw material costs, product returns, unabsorbed overheads resulting from relatively low production levels during the first half of the year, and a less favourable sales mix.

Comparable year-over-year selling, general, and administrative ("SG&A") costs at the divisional level were up by approximately 4% due to higher incentives for existing customers, higher marketing and promotional costs for new customers, and the generally higher sales level this year. As a percentage of sales, SG&A costs for the comparable remaining operations have increased only modestly to 29.8% this year versus 29.6% last year. The increase resulted, in part, from the higher divisional expenses referred to above. As well, actual corporate expenditures only began to decrease significantly following the January 31, 1996 closing of the Kentucky corporate office. Accordingly, the relatively high full year corporate expenditure level further increased the percentage of sales calculation.

Net interest income of $1.0 million was earned this year on the surplus funds generated by the sales of Equion's business units to date, versus a $3.4 million expense last year.

The combination of all of the above resulted in an operating loss of $1.6 million this year, versus a $1.9 million operating loss last year.

This year's loss has been largely offset by a $4.6 million pre-tax and pre-minority interest gain on the sales of Equion's business units, less a $0.8 million adjustment in connection with the July 1995 Signet Sale and a $0.5 million restructuring charge in connection with the implementation of changes at Hayden. These changes are part of an initiative which commenced last year, intended to improve productivity at Hayden's manufacturing and distribution facilities. In 1995, a $21.5 million gain was generated by the Signet Sale, partly offset by a $1.7 million restructuring change for the Hayden initiative described above.

Real Estate

In 1996, two of the Company's three Symphony Place condominium suites were sold, together with a land development site in Markham, Ontario. A $0.1 million profit was recorded on sales proceeds of $1.7 million. As at July 31, 1996, one suite remained in inventory at Symphony Place, a condominium in downtown Toronto, along with a land development site in Whitby, Ontario. During the year, the Whitby holding was reviewed in conjunction with current market values in the Greater Toronto area. The land market has been severely depressed since early 1989 and, despite significant progress achieved in development status during the past year, it appeared clear that the current market value was well below the carrying value of the property. Accordingly, a $3.2 million provision for diminution in asset value was recorded to reflect the anticipated proceeds from an expected sale or joint venture transaction in due course. Net of this provision, a $3.1 million operating loss was generated. The Company has recently agreed to sell the Symphony Place suite. Closing is scheduled for October 31, 1996.

Although six cases have been settled in favour of the Company, litigation is ongoing in connection with a number of defaulted Hidden Valley condominium units from a prior year. All of the units have been resold. The trial of the remaining cases was completed in July 1996 and a decision is anticipated in the fall of 1996.

In 1995, revenues of $0.3 million were generated primarily by the sale of one Symphony Place condominium suite. A $0.1 million loss from operations was recorded, net of a $0.2 million provision for diminution in asset values related to the Whitby site.

Hotel

Year-over-year revenues at our Best Western Hidden Valley Resort Hotel declined by 3% from $2.0 million in 1995 to $1.9 million in 1996, primarily due to lower food and beverage sales resulting from a change in the customer mix. Occupancy levels and room rates were unchanged. Notwithstanding the lower revenues, earnings from

operations increased to $168,000 this year, versus $52,000 last year. The increase is a result of improved operating efficiencies, cost reductions, and lower interest charges following the October 1995 prepayment of the hotel's mortgage.

Corporate and Other

Net corporate overheads and other outlays of $1.0 million were incurred this year, versus $1.2 million in 1995. Excluding certain one-time savings, there is no appreciable difference on a year-over-year basis.

Management's Outlook

In the fall of 1995, stimulated by the express desire of its minority shareholders to have their shares repurchased, Equion initiated a process to sell its remaining automotive businesses. All of those businesses, with the exception of industrial cooling products, have now been sold. There are no current plans to sell this remaining business unit. Similarly, as noted above, the Company continues to own its land in Whitby and the Best Western Hidden Valley Resort Hotel. Management's consideration of options for the redeployment of Enscor's remaining assets, comprised mostly of cash and other liquid assets, will now proceed expeditiously and a plan is expected to be presented to the Board of Directors over the next few months.

1995 versus 1994

Summary

Net earnings of $9.3 million on $141 million of revenues were recorded in 1995, versus $1.0 million of earnings on $127 million of revenues in 1994. Operating results produced a $3.1 million loss, versus $3.4 million of earnings in 1994. Results for 1995, however, were significantly impacted by a pre-tax and pre-minority interest gain of $21.5 million on the Signet Sale, partly offset by a $1.7 million restructuring charge.

Automotive

Equion generated net sales of $139 million in 1995, 12% higher than the $124 million in 1994. A substantial portion of the increase was attributable to the Hayden division where revenues increased by 25% as a result of continued growth in the sale of industrial products and expansion of the engine drive-line product category. The TCI division also experienced sales growth of 14% resulting from both new product offerings and increased sales to customers focusing on mail order activities. In total, Aftermarket revenues were $62 million in 1995, 19% higher than the $52 million in 1994.

Gross profit margins of 25.1% were achieved in 1995, versus 29.1% in 1994 (30.1% in the Aftermarket business in 1995, versus 32.5% in 1994). The 1995 margins were negatively impacted by a combination of factors including a change in the product mix, higher labour and material costs related to production cutbacks and parts shortages, competitive pressures, and added costs in connection with start-up activities at Signet AutoAir. A majority of the margin reduction was related to the operations which were sold in July 1995.

Selling, general, and administrative expenses of $33.4 million were incurred for fiscal 1995, compared with 1994 expenses of $28.9 million. As a percentage of sales, expenses rose by 0.7% to 24.1%, primarily as a result of costs associated with start-up activities at Signet AutoAir. The percentage for the Aftermarket business declined to 27.8%, a reduction of 0.9% from 1994.

Before interest charges, earnings of $1.5 million were generated in 1995, versus $7.2 million in 1994. A small part of the year-over-year reduction in these earnings was attributable to the ongoing Aftermarket business.

Interest expense for 1995 was $3.4 million, an increase of $1.3 million over 1994 as a result of rising interest rates together with higher borrowing levels required to support increased business and the acquisition of Signet AutoAir. Most of the interest expense was incurred in connection with Equion's bank credit facility, all of which was repaid in July 1995.

A $1.9 million loss from operations was incurred in 1995, compared with earnings of $5.1 million in 1994. Lower gross margins on sales, costs incurred in connection with start-up activities at Signet AutoAir, and higher interest expenses were the primary factors.

The Signet Sale resulted in a non-operating gain of $21.5 million, after expensing most of the Company's recorded goodwill ($5.0 million remained at July 31, 1995, versus $14.7 million one year earlier). As well, a non-operating provision for restructuring costs of $1.7 million was recorded in 1995. There were no such costs in 1994.

Real Estate

During 1995, the Company settled a litigation matter in connection with one of its Symphony Place condominium suites, resulting in the sale of that suite. However, as a result of a mortgage default on another unit, the Company took possession of that unit and, accordingly, three suites remained in inventory as at July 31, 1995. Real estate revenues of $0.25 million included the one sale together with interest income on mortgages receivable and term deposits.

A $0.1 million loss from operations was recorded in 1995 after reflecting a $0.2 million provision for diminution in asset values and a $0.1 million allowance for doubtful accounts, partly offset by $0.1 million of previously anticipated project completion costs which will not likely be incurred.

In 1994, one condominium suite and a commercial site were sold, generating most of the $0.7 million of revenues and $0.2 million of divisional earnings. A $1.0 million provision for diminution in asset values and a $0.1 million allowance for doubtful accounts were also recorded, but these charges were offset by cost savings on one of the completed projects.

Hotel

Our Best Western Hidden Valley Resort Hotel generated significantly improved operating results in 1995. Revenues for the year increased to $2.0 million, a 12.5% increase over 1994 levels, reflecting higher occupancy levels of 53% versus 45% last year. Operating cash flow increased from $0.15 million to $0.39 million, and resulted in divisional earnings of $0.05 million, compared with a $0.24 million loss in 1994. The divisional earnings in 1995, albeit modest, represented the hotel's first full-year earnings since its acquisition in 1988.

Corporate and Other

Net corporate overheads and interest expense was $1.2 million in 1995, representing a 30% reduction from the $1.7 million level in 1994. The reduction substantially reflected reduced residual activities. In November 1994, the sale of the Company's last remaining oil and gas assets was completed. There was no impact on earnings.

Investments

In 1994, most of the Company's $0.1 million historical investment portfolio was written down. No further actions were taken in 1995.

AUDITORS' REPORT
TO THE SHAREHOLDERS OF ENSCOR INC.

We have audited the consolidated balance sheets of Enscor Inc. as at July 31, 1996 and 1995 and the consolidated statements of earnings, retained earnings (deficit) and cash flows for each of the years in the three year period ended July 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended July 31, 1996 in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

North York, Canada
September 20, 1996

Enscor Inc.

CONSOLIDATED BALANCE SHEET

(Expressed in United States thousands of dollars)

	July 31 1996	July 31 1995
Assets		
Current Assets		
Cash and short-term investments (note 15(d))	$10,859	$10,628
Trade receivables, less allowance of $500,000($396,000 — 1995) (note 3)	7,232	13,492
Amounts receivable (note 4)	3,825	4,980
Inventories (note 5)	5,945	22,833
Prepaid expenses and other current assets	668	1,192
Advances to and from related companies (note 6)	1,070	902
	29,599	54,027
Capital assets (note 7)	4,743	9,959
Deferred income taxes	66	918
Long-term portion of amounts receivable (note 4)	—	2,500
Goodwill	1,641	5,024
Other assets	40	182
	$36,089	$72,610
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 7,062	$14,626
Income taxes payable	—	1,800
Current portion of long-term debt (note 9)	2,220	2,811
	9,282	19,237
Long-term debt, less current portion (note 9)	101	4,194
Other liabilities	581	1,085
Minority interest	—	11,617
Deferred income taxes	66	918
	10,030	37,051
Shareholders' Equity (note 10)		
Preferred shares	—	4,896
Common shares		
Authorized: unlimited		
Issued and outstanding: 22,967,907 (23,445,846 — 1995)	24,065	24,478
Cumulative translation adjustment	146	100
Retained earnings	1,848	6,085
	26,059	35,559
	$36,089	$72,610

Commitments and contingencies (note 20)

(See accompanying notes)

APPROVED BY THE BOARD

SAM REISMAN
Director

STEPHEN R. MORRISON
Director

Enscor Inc.

CONSOLIDATED STATEMENT OF EARNINGS

(Expressed in United States thousands of dollars except per common share amounts)

	Year Ended July 31		
	1996	1995	1994
Net sales	$ 53,615	$138,902	$124,530
Interest and other income	3,209	2,164	2,024
	56,824	141,066	126,554
Cost of sales	40,600	104,030	87,191
Selling, general, and administrative (notes 15(a) and 16(b))	17,537	37,404	32,423
Depreciation and amortization (note 15(b))	1,032	2,565	2,562
Provision for diminution in asset values (notes 5 and 13)	3,165	203	1,003
	62,334	144,202	123,179
Earnings (loss) from operations	(5,510)	(3,136)	3,375
Gain on disposal of assets (note 2)	3,749	21,541	—
Restructuring costs (note 8)	(500)	(1,726)	—
Loss from investments	—	—	(94)
Earnings (loss) before income taxes and minority interest	(2,261)	16,679	3,281
Income taxes (recovery) (note 11)			
Current	597	2,188	501
Deferred	—	(174)	222
	597	2,014	723
Earnings (loss) before minority interest	(2,858)	14,665	2,558
Minority interest	890	5,320	1,560
Net earnings (loss)	(3,748)	9,345	998
Less: dividends paid on preferred shares	412	442	442
Net earnings (loss) applicable to common shares	$ (4,160)	$ 8,903	$ 556
Net earnings (loss) per common share (note 12)			
Basic	$ (0.18)	$ 0.38	$ 0.02
Fully diluted	$ (0.18)	$ 0.35	$ 0.02

(See accompanying notes)

Enscor Inc.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

(Expressed in United States thousands of dollars)

	Year Ended July 31		
	1996	1995	1994
Balance — beginning of year	$ 6,085	$(2,818)	$(3,377)
Net earnings (loss)	(3,748)	9,345	998
Dividends paid on preferred shares	(412)	(442)	(442)
Premium on redemption of preferred shares	(77)	—	—
Expiry of warrants	—	—	3
Balance — end of year	$ 1,848	$ 6,085	$(2,818)

(See accompanying notes)

Enscor Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in United States thousands of dollars)

	Year Ended July 31		
	1996	1995	1994
Operating activities			
Net earnings (loss)	$(3,748)	$ 9,345	$ 998
Add (deduct) items not involving cash:			
Gain on disposal of assets (note 2)	(3,749)	(21,541)	—
Minority interest, including dividends paid	890	5,518	1,560
Depreciation and amortization	1,806	4,463	4,015
Deferred income taxes	—	(174)	222
Provision for diminution in asset values	3,165	203	1,003
Loss from investments	—	—	94
	(1,636)	(2,186)	7,892
Changes in non-cash operating balances (note 18(a))	(1,408)	(6,924)	(5,611)
Cash provided (used) by operating activities	(3,044)	(9,110)	2,281
Financing activities			
Increase in long-term debt	—	—	6,691
Repayment of long-term debt	(4,184)	(27,574)	(6,929)
Notes and other receivables	3,410	(6,971)	—
Issue (repurchase) of common shares	(413)	—	8
Dividends paid	(412)	(442)	(442)
Redemption of preferred shares	(4,973)	—	—
Cash used by financing activities	(6,572)	(34,987)	(672)
Investing activities			
Acquisition and development of land and housing	(612)	(719)	(443)
Recovery of costs through sales	1,624	150	492
Purchase of capital assets	(640)	(2,708)	(3,518)
Proceeds on disposal of assets	22,218	55,008	14
Cost of acquisitions, net of cash (note 2)	(12,756)	(1,461)	(1,829)
Cash provided (used) by investing activities	9,834	50,270	(5,284)
Effect of exchange rate changes	13	50	(180)
Increase (decrease) in cash and cash equivalents	231	6,223	(3,855)
Cash and cash equivalents — beginning of year	10,628	4,405	8,260
Cash and cash equivalents — end of year (note 15(d))	$10,859	$10,628	$ 4,405

(See accompanying notes)

Enscor Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1996

(Tabular amounts expressed in United States thousands of dollars, except per common share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company are prepared in accordance with accounting principles generally accepted in Canada which conform in all material respects with accounting principles generally accepted in the United States, except as indicated in Note 14.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, together with the Company's proportionate share of the assets, liabilities, revenues and expenses in a partnership and joint ventures. The principal company included in the consolidated group is The Equion Corporation ("Equion"). All material intercompany accounts and transactions have been eliminated.

Basis of presentation

In recognition of substantially all ongoing operations originating in the United States through Equion, the Company has, since July 31, 1993, reported its results in U.S. dollars. The Company's Canadian hotel and residual real estate operations, for the years ended July 31, 1996, 1995, and 1994 are translated into United States dollars using the end of period exchange rate for assets and liabilities and an average prevailing rate during the period for revenues and expenses. Any resulting translation gain or loss has been recorded in shareholders' equity.

Inventories

The Equion inventories are stated at the lower of cost (first-in, first-out method) and market.

Capitalization of costs — Land and housing under development

The Company follows the policy of capitalizing direct carrying costs such as interest, realty taxes and other related costs to land under development and housing under construction.

The Company also capitalizes that portion of interest on general borrowings considered applicable to land under development and housing under construction.

Land and housing under development is recorded at the lower of cost and estimated net realizable value.

Automotive part sales and warranties

The Company provides 12-36 month warranties on certain automotive parts. A warranty accrual is recorded at the time of sale for estimated claims based on historical claims experiences.

Revenue recognition

Revenue from real estate transactions is recognized as follows:

House sales	at the date when title passes and closing has occurred and all material conditions precedent to closing have been fulfilled or provided for.
Condominium sales	when the amount due on occupancy is received and the purchaser is entitled to occupancy and undertakes to assume a mortgage for the balance of the purchase price.
Land sales	when all material conditions precedent to closing have been fulfilled, at least 25% of the purchase price has been received and interest will accumulate at a reasonable rate on the balance which is not subordinated to additional loans on the property.

The Company does not have any continuing involvement with properties sold that would result in retention of any substantial risks or rewards of ownership.

Capital assets

Capital assets are recorded at cost. Depreciation is provided on a straightline basis over the estimated useful lives:

Furniture, Machinery and Equipment	five to eight years
Buildings	twenty-eight to forty years
Leasehold Improvements	over the term of the specific leases

Goodwill

Goodwill, the excess of the cost of business acquisitions over the fair value of the underlying assets acquired, is capitalized and amortized on a straight-line basis over thirty years. The Company periodically reviews the carrying value of its goodwill to determine whether an impairment in such goodwill has occurred. Substantially all of the Company's recorded goodwill pertains to its acquisition of Equion. Therefore, in its review, the Company considers management's long-term projections of Equion's operating results, as measured by earnings before interest and taxes, and management's judgment as to the fair value of its investment in Equion, using objective third-party criteria wherever possible.

Deferred income taxes

The Company follows the deferral method of tax allocation under which income taxes are provided for in the period during which transactions are included in accounting income.

2. ACQUISITIONS AND DIVESTITURES

(a) The Equion Corporation

During fiscal 1996, the Company acquired all of the common shares previously held by the minority shareholders. As a result, Equion is now wholly owned by the Company. The total consideration paid for the minority shareholders' 30% interest was $12.8 million.

(b) Certain Assets Of Automatic Flywheel, Inc.

On April 19, 1994, Equion acquired the flywheel, ring gear, and cable product lines of Automatic Flywheel, Inc. of Dallas, Texas. The acquired operations were integrated into Equion's Hayden division. The purchase price was $2,039,000, satisfied by a cash payment of $1,829,000 and the assumption of a note payable of $210,000.

(c) Signet AutoAir Klimaanlagen GmbH ("SAA")

On September 1, 1994, Equion acquired, for $1.9 million, an 80% interest in SAA which purchased certain assets of AutoAir Klimaanlagen GmbH. SAA, located in Goch, Germany, is a designer and manufacturer of air-conditioning kits and components serving the automotive, truck, and off-highway vehicular marketplace, primarily in Europe.

(d) Sale of Signet Systems, Inc. ("SSI") and Capital Stock of SAA

On July 31, 1995, Equion completed the sale of all of the business and substantially all of the property, rights, and net assets of SSI, one of its divisions, and all of its capital stock of SAA, for approximately $56.0 million. A $21.5 million pre-tax gain was recorded at the time. Equion received a cash payment of $49.0 million and two promissory notes each for $2.5 million (note 4). As well, an additional $2.0 million of proceeds were receivable under price adjustment provisions of the agreement (note 4). SSI's and SAA's net sales for the year ended July 31, 1995, were $76,103,000 (1994 — $71,450,000).

(e) Sale of TCI and Trans-Tool divisions and Engine Driveline product line ("EDL")

Effective December 29, 1995, Equion completed the sale of the business and assets of its TCI division. On February 29, 1996, its Trans-Tool division was sold and, on April 30, 1996, the EDL sale was completed. In total, a $4.6 million pre-tax gain was recorded on proceeds of $23.5 million. This pre-tax

gain was offset by a $0.8 million charge representing certain price adjustments in connection with the 1995 sale of SSI and SAA. Combined net sales for TCI, Trans-Tool, and EDL for the year ended July 31, 1996 were $20,971,000 (1995 -$32,362,000; 1994 — $24,690,000).

3. TRADE RECEIVABLES

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade receivables.

The Company primarily sells to the U.S. automotive aftermarket and to industrial customers. The Company's exposure to credit risk associated with the non-performance of these customers in fulfilling their contractual obligations can be directly impacted by a decline in economic conditions which could impair the customers' ability to satisfy their obligations to the Company. In order to reduce the risks, the Company has credit procedures in place whereby analyses are performed to control the granting of credit to high-risk customers.

4. AMOUNTS RECEIVABLE

	July 31 1996 Amount	Average Interest Rate	July 31 1995 Amount
Notes receivable (a)	$ 2,500	8.75%	$ 5,000
Amount due on disposal of assets (b)	—		1,971
Amount due on disposal of assets (c)	217		—
Income taxes receivable	650		—
Mortgages receivable, less allowance of $nil ($99,000 — 1995)			
— interest bearing	2	12%	9
— non-interest bearing	—		44
Other	456		456
	3,825		7,480
Less long-term portion	—		2,500
	$ 3,825		$ 4,980

(a) The notes receivable resulted from the disposal of assets (note 2(d)). The remaining $2.5 million is due on July 31, 1997.

(b) This amount represented the balance on the disposal of assets (note 2(d)), and was paid during the 1996 fiscal year.

(c) This amount represents the balance of proceeds in connection with the EDL sale (note 2(e)), and was received in August 1996.

5. INVENTORIES

	July 31 1996	July 31 1995
Automotive		
Raw materials	$ 2,655	$ 6,060
Work in process	319	646
Finished goods	1,175	10,923
	4,149	17,629
Obsolescence reserve	(227)	(1,009)
	3,922	16,620
Land and housing under development		
Land		
Acquisition costs	3,211	5,300
Carrying costs	1,572	1,879
Development costs	910	903
	5,693	8,082
Housing	193	1,461
	5,886	9,543
Provision for diminution	(3,863)	(3,330)
	2,023	6,213
	$ 5,945	$ 22,833

6. RELATED PARTY TRANSACTIONS

(a) Advances to and from related companies are non-interest bearing, have no specific terms of repayment, and consist of the following:

	July 31 1996	July 31 1995
Advances to	$ 1,479	$ 1,315
Advances from	409	413
	$ 1,070	$ 902

(b) Substantially all of the Company's preferred shares were held by companies which are subsidiaries of a company controlled by a trust for the children of the Company's Chairman. The balance of the preferred shares were held by a company over which control or direction may be exercised by the Company's President. All of the preferred shares were redeemed during fiscal 1996.

(c) $nil ($121,000 — 1995) of promissory notes were payable to a company that is a subsidiary of a company controlled by a trust for the children of the Company's Chairman. The Company's Chairman is the President and a director of that company (note 9). This debt was secured by mortgages receivable (note 4). In addition, $0.9 million of promissory notes were payable to a former director of the Company and were secured by a pledge of a portion of the Company's shares in Equion (note 9).

(d)

	Year Ended July 31 1996	Year Ended July 31 1995	Year Ended July 31 1994
Fees paid for management and other services provided*	$ 1,204	$ 1,011	$ 1,000
Interest paid on the promissory notes referred to in note 6(c)	$ 72	$ 107	$ 209

* by the company referred to in note 6(c) together with one of its subsidiaries, and by a former director of the Company.

(e) The Company leases approximately 17,500 square feet of office space in Don Mills, Ontario from a corporation controlled by a person related to the Company's Chairman, for $162,000 annually. The lease expires in 1997. The Company subleases part of the office space to the company referred to in note 6(c) for $62,000 annually.

7. CAPITAL ASSETS

	Cost		Accumulated depreciation and amortization		Net Book Value	
	July 31 1996	July 31 1995	July 31 1996	July 31 1995	July 31 1996	July 31 1995
Hotel land	$ 1,186	$ 1,196	$1,117	$1,126	$ 69	$ 70
Hotel building and equipment	3,670	3,654	2,500	2,379	1,170	1,275
Furniture, equipment, and leasehold improvements	2,011	1,106	1,413	832	598	274
Automotive land	—	33	—	—	—	33
Automotive building	—	2,376	—	467	—	1,909
Automotive machinery and equipment	4,596	6,707	1,690	309	2,906	6,398
	$11,463	$15,072	$6,720	$5,113	$4,743	$9,959

Accumulated depreciation and amortization includes a $1,967,000 provision for decline in value of the hotel assets.

8. RESTRUCTURING AND OTHER CHARGES

Restructuring charges of $1,726,000 for 1995 included the following costs relating to the relocation of Hayden's automotive parts distribution facility from California to Tennessee and the planned closure of the Company's corporate office in Kentucky by January 1996 as a result of the sale of SSI: (i) $889,000 for termination benefits for eight California and Kentucky employees, (ii) $737,000 to relocate the distribution facility to Tennessee, and (iii) $100,000 to close the Kentucky corporate office. Of these total costs, $401,000 were paid in 1995 towards relocating the distribution facility and the unpaid balance of $1,325,000 was included in accounts payable and accrued liabilities.

In January 1996, an additional charge of $500,000 for termination benefits was recorded to reflect revised estimates for the Hayden restructuring. In 1996, $1,518,000 of the above restructuring charges were paid and the balance of $307,000 is included in accounts payable and accrued liabilities.

9. LONG-TERM DEBT

	July 31	
	1996	1995
Mortgage(s) payable	$2,121	$4,035
Notes payable	200	2,970
	2,321	7,005
Less: current portion	2,220	2,811
	$ 101	$4,194
Weighted average interest rates	8.3%	8.4%

(a) The mortgage payable bears interest at 8.5% per annum, and will mature on June 30, 1997. In consideration thereof, the Company has agreed to a $220,000 prepayment. The mortgage is secured by land under development.

(b) The notes payable bear interest at varying rates currently ranging from 6% to 7% and mature over a three year period.

(c) The principal repayments are as follows:

Years Ending July 31	
1997	$ 2,220
1998	93
1999	8
	$ 2,321

Of the total debt, $2.1 million is repayable in Canadian funds.

10. SHAREHOLDERS' EQUITY

(a) Changes in the Company's outstanding common share capital were as follows:

	Number of Shares		Amount	
	July 31 1996	July 31 1995	July 31 1996	July 31 1995
Balance — beginning of year	23,445,846	23,445,860	$24,478	$24,478
Shares repurchased	(477,931)	—	(413)	—
Fractional shares eliminated pursuant to a prior acquisition	(8)	(14)	—	—
Balance — end of year	22,967,907	23,445,846	$24,065	$24,478

The aggregate legal stated capital of the common shares of the Company is $13.2 million.

(b) Preferred Shares:

	Number of Shares		Amount	
	July 31 1996	July 31 1995	July 31 1996	July 31 1995
Series E	—	400,000	$ —	$ 4,000
Series F	—	996,362	—	662
Series G	—	319,719	—	234
	—	1,716,081	$ —	$ 4,896

The Company's 400,000 9% Cumulative Series E Preferred Shares were convertible into common shares at $1.20 per share. These shares were retractable at the holders' option, at any time after May 14, 1996, in annual installments of up to $1 million on a cumulative basis, at $10 per share. In addition, these shares were redeemable at the option of the Company, at $10 per share after May 14, 1996. The 8.36% Cumulative Series F and G Preferred Shares were retractable at the holder's option, at any time after July 31, 1994, in annual installments ranging in aggregate from $437,000 Cdn. to $442,000 Cdn. on a cumulative basis, at prices ranging from $0.93 Cdn. to $0.94 Cdn. per share. In addition, these shares were redeemable at the option of the Company at a discount of 6%. All of the above Preferred shares were redeemed during fiscal 1996.

(c) Stock option plans —

The following stock option plans were in effect in 1996:

1985 Stock Option Plan —

Options have been granted to certain employees under this Plan which vest over five years and expire on the earlier of 10 years from the date of grant or on termination of employment, unless otherwise stated. Total options under the Plan are limited to 643,100. During 1996, no options were granted and 10,000 expired, leaving 80,000 fully exerciseable options outstanding at prices ranging from $1.53 U.S. to $2.60 Cdn.

1993 Stock Option Plan (the "Equion Plan")

The Equion Plan was adopted in May 1993 and replaced a previous plan in effect at a predecessor company. As of July 31, 1995, stock options to purchase a total of 9,121 shares had been issued under this plan, all of which were surrendered during fiscal 1996 in conjunction with certain employee terminations.

11. INCOME TAX INFORMATION

(a) Income Taxes

Income taxes (recovery), including current and deferred portions, have been computed as follows:

	Year Ended July 31		
	1996	1995	1994
Combined Canadian federal and provincial income tax rate	44.3%	44.3%	44.3%
Income (loss) before income taxes and minority interest	$(2,261)	$16,679	$ 3,281
Items which are non-deductible:			
Permanent differences	4,754	9,191	1,646
Losses not tax effected	4,058	1,207	1,817
	$ 6,551	$27,077	$ 6,744
Tax at basic rates	$ 2,902	$11,995	$ 2,988
Decrease in taxes resulting from:			
Effects of United States operations	(367)	(1,536)	(230)
Realization of benefits of loss and depletion carryforwards	(1,952)	(8,485)	(2,050)
	583	1,974	708
Federal capital tax	14	40	15
Income taxes	$ 597	$ 2,014	$ 723
Effective tax rate	(26.4%)	12.1%	22.0%

(b) Substantially all of the components of the Company's income before income tax expense are derived from the Company's United States operations.

Deferred tax assets of $918,000 in 1995 resulted primarily from the accrual of employee severance. Deferred tax liabilities of $918,000 in 1995 resulted from the excess of the book basis of capital assets over their tax basis and, to a lesser extent, from revenues deferred for income tax purposes.

(c) At July 31, 1996, the Company and its subsidiaries had operating loss carryforwards for tax purposes which expire as follows:

July 31	United States	Canada
1997	$ 725	$ 137
1998	86	—
1999	2	24
2000	1	648
2001	1	2,496
2002 and after	2	2,353
	$ 817	$5,658

The Company also has approximately $2.7 million in United States percentage depletion carryforwards which have no time limit as to expiration, but are limited to 65% of the taxable income generated each year. In addition, the current year's $3.2 million provision for diminution in asset values will be recognized for Canadian tax purposes in the 1997 fiscal year.

The future tax benefits of these operating loss and depletion carryforwards have not been recognized for financial reporting purposes, except for approximately $385,000 of depletion carryforwards.

12. NET EARNINGS (LOSS) PER COMMON SHARE

The weighted average number of outstanding shares which was used to calculate net earnings (loss) per common shares was:

	Year Ended July 31		
	1996	1995	1994
Basic	23,363,571	23,445,846	23,437,970
Fully diluted	26,635,588	26,885,398	27,304,835

13. INVESTMENT IN REAL ESTATE PARTNERSHIP AND JOINT VENTURES

Included in the consolidated financial statements are the accounts of the following:

	Participation Interest
Rose Homes Partnership (included in the Rose Homes Partnership is a 50% interest in the Rosedale North Joint Venture)	98%
Whitby Joint Venture	75%

The proportionate share of, or undivided interest in, the above assets, liabilities, revenues, and expenses is reflected in the consolidated financial statements as follows:

	Year Ended July 31		
	1996	1995	1994
Assets	$5,099	$7,194	$6,308
Liabilities	2,136	2,184	2,167
Revenues	—	4	1
Expenses	—	—	2
Provision for diminution	3,165	—	743

The assets and liabilities shown above are primarily those of the Whitby Joint Venture. The provision for diminution relates specifically to the Whitby Joint Venture.

14. SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian Basis") which differ in certain respects from those prepared in accordance with accounting principles and practices generally accepted in the United States ("U.S. Basis"). Under the U.S. Basis certain items in the Consolidated Statement of Earnings and the Consolidated Balance Sheet would have been reported as follows:

(a) Consolidated Statement of Earnings

	Year Ended July 31		
	1996	1995	1994
Net earnings (loss) — Canadian Basis	$(3,748)	$ 9,345	$ 998
Increased depreciation and amortization (i)	32 (154)	(548)	(553)
Increased selling, general, and administrative expenses (iii)	—	(344)	(148)
Decreased (increased) tax provision — deferred (i) (ii)	8 (425)	(61)	659
Decreased gain on disposal of assets (i) (ii) (iii)	36 (1,027)	(3,104)	—
Net earnings (loss) — U.S. Basis	$(5,354)	$ 5,288	$ 956
— per common share	$ (0.25)	$ 0.21	$ 0.02

(b) Consolidated Balance Sheet

S/E rec
32 79.4
8 218.8
36 526.1
total. 823

	July 31, 1996		July 31, 1995	
	Canadian Basis	U.S. Basis	Canadian Basis	U.S. Basis
Assets				
Capital assets (net) (i)	$ 4,743	$5,276	$ 9,959	$10,915
Goodwill (i)	1,641	1,928	5,024	6,070
Deferred income taxes — asset (ii)	66	909	918	2,798
Liabilities and Shareholders' Equity				
Deferred income taxes — liability (i)	66	906	918	2,371
Retained earnings	1,848	2,671	6,085	8,514
Shareholders' equity — preferred (iv)	—	—	4,896	—

823

(i) Under the Canadian Basis, the fair values of the net assets acquired in a business combination are adjusted for differences from the amounts that will be used for tax purposes, whereas under the U.S. Basis deferred income taxes are recorded on such differences.

(ii) Under the Canadian Basis, the tax benefit of certain operating loss carryforwards of an acquired company were not recognized as an asset at the date of acquisition because there was no reasonable assurance of realization of such benefits. The tax benefits of these loss carryforwards are recognized as a reduction of income tax expense only when they are realized. Under the U.S. Basis, as set forth in Statement of Financial Accounting Standards ("FAS") No. 109, the tax benefits may be recognized in a subsequent year when a change in circumstances justifies a decrease in the related valuation allowance. These benefits are first applied to reduce to zero any goodwill related to the acquisition, next applied to reduce to zero any intangible assets related to the acquisition and finally applied to reduce income tax expense. As at July 31, 1996 and 1995, management continued to recognize deferred tax assets on the basis that reversing taxable temporary differences and estimates of taxable income for the succeeding two years indicated that realization of the assets was more likely than not.

(iii) Under the Canadian Basis, current costs of postretirement health care and life insurance benefits for certain SSI employees were expensed on a cash basis. Under the U.S. Basis, these benefits were accounted for in accordance with the provisions of FAS 106, which requires accrual, during the period of employment, of the expected cost of providing the benefits to the employees.

The following is an analysis of the amounts included in the U.S. Basis measurements:

	Year Ended July 31	
	1995	1994
Current service cost	$ 214	$ 133
Interest on unfunded liability	548	511
Amortization of unrecognized losses	99	—
Less cash expenses under Canadian Basis	(370)	(432)
	$ 491	$ 212
U.S. Basis adjustment at 69.95%	$ 344	$ 148

Prior to the sale of SSI, Equion's Board of Directors adopted amendments to SSI's retiree medical and life insurance plans that reduced its accumulated postretirement benefit obligation by approximately $2.5 million. The proportionate effect of this plan amendment has been included in the Company's gain on sale of SSI.

(iv) Under the U.S. Basis, the Company's redeemable preferred shares would not be included under the heading "Shareholders' equity".

(c) Primary Earnings Per Share

The Company's outstanding stock options are considered to be common stock equivalents for the purpose of determining primary earnings per common share. They are excluded, however, from the determination to the extent that they are anti-dilutive. Primary earnings (loss) per common share are $(0.18) ($0.38 — 1995; $0.02 — 1994).

(d) Joint Ventures

Under the U. S. Basis, joint ventures would be accounted for on an equity or consolidated basis, as appropriate. The use of these methods would not result in any differences to net earnings or shareholders' equity.

(e) Statement of Cash Flows

Under the U.S. Basis, the cash received on notes and other receivables of $3.4 million would be added to proceeds of disposal of $22.2 million and, in 1995, the amounts receivable of $7.0 million from the disposal of assets would be netted against the proceeds of disposal of $55.0 million. Also, under the U.S. Basis, the restricted cash indicated in note 15(d) would be excluded from cash and cash equivalents.

(f) Fair Value of Financial Assets and Liabilities

The 1996 fiscal year is the initial year of application of FAS 107 "Disclosure about Fair Value of Financial Instruments" to the Company's financial statements.

The carrying values of cash and short-term investments, trade receivables, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

The fair values of amounts receivable and long-term debt also approximate their fair value because they bear interest rates that reflect current rates available to the Company for similar instruments and they mature within the next fiscal year.

(g) FAS 121
"Accounting for the impairment of long-lived assets and for long-lived assets to be disposed"

Effective August 1, 1996, FAS 121 "Accounting for the impairment of long-lived assets and for long-lived assets to be disposed" will apply. If FAS 121 had been applied as at July 31, 1996 and 1995, there would have been no material effect on the Company's financial position or results of operations.

15. OTHER INFORMATION

(a) Research and Development

Included in selling, general, and administrative expenses are approximately $76,000 ($4,171,000 — 1995; $4,686,000 — 1994) of research and development costs.

(b) Depreciation and Amortization

Total depreciation and amortization expense is $1,806,000 ($4,463,000 — 1995; $4,015,000 — 1994), of which $774,000 ($1,898,000 — 1995; $1,451,000 — 1994) is included in cost of sales and $nil ($450,000 — 1995; $340,000 — 1994) represents amortization of deferred financing fees.

(c) Sales to Major Customers

There were no major customers in the automotive segment for the year ended July 31, 1996. Sales to each of two major customers in the automotive segment for the previous years were $33,731,000 and $14,983,000 — 1995 and $41,685,000 and $19,544,000 — 1994 respectively.

(d) Restricted Cash

$538,000 ($2,245,000 — 1995) of cash and/or short-term investments is being held to secure outstanding real estate letters of credit and, in 1995, automotive warranty claims (note 20(b)).

16. INTEREST ALLOCATION

(a) Capitalized interest is charged to the cost of sales of land on a proportionate basis of units sold to total units for each project. Interest incurred and charged to cost of sales is summarized below:

	Year Ended July 31		
	1996	1995	1994
Interest capitalized — beginning of year	$ 670	$ 457	$ 1,130
Interest incurred	195	213	201
	865	670	1,331
Interest expensed	(865)	—	(874)
Interest capitalized — end of year	$ —	$ 670	$ 457

(b) Selling, general, and administrative expenses include interest on:

	Year Ended July 31		
	1996	1995	1994
Credit facility	$ —	$ 3,288	$ 2,063
Notes payable	218	351	334
Mortgages payable	30	112	146
10% convertible subordinated debentures	—	—	91
	$ 248	$ 3,751	$ 2,634

17. SEGMENTED INFORMATION

The following summarizes the Company's operations by industry segment:

	Automotive (1)	Real Estate	Hotel	Corporate and Other	Total
July 31, 1996					
Revenues	$ 52,929	$ 1,745	$ 1,893	$ 257	$ 56,824
Cost of sales and expenses	54,498	4,818	1,725	1,293	62,334
Earnings (loss) from operations	$ (1,569)	$(3,073)	$ 168	$(1,036)	$ (5,510)
Total assets	$ 29,992	$ 4,076	$ 1,587	$ 434	$ 36,089
Depreciation and amortization	$ 1,576	$ —	$ 156	$ 74	$ 1,806
July 31, 1995					
Revenues	$138,709	$ 252	$ 1,960	$ 145	$141,066
Cost of sales and expenses	140,639	331	1,908	1,324	144,202
Earnings (loss) from operations	$ (1,930)	$ (79)	$ 52	$(1,179)	$ (3,136)
Total assets	$ 61,575	$ 8,116	$ 1,651	$ 1,268	$ 72,610
Depreciation and amortization	$ 4,203	$ —	$ 157	$ 103	$ 4,463
July 31, 1994					
Revenues	$123,756	$ 654	$ 1,741	$ 403	$126,554
Cost of sales and expenses	118,687	432	1,983	2,077	123,179
Earnings (loss) from operations	$ 5,069	$ 222	$ (242)	$(1,674)	$ 3,375
Total assets	$ 80,556	$ 8,603	$ 1,740	$ 2,736	$ 93,635
Depreciation and amortization	$ 3,582	$ —	$ 239	$ 194	$ 4,015

(1) The Company's automotive operations are located primarily in the United States.

18. ADDITIONAL INFORMATION

(a) Details of net changes in non-cash operating balances as reported in the Consolidated Statement of Cash Flows are as follows:

	Year Ended July 31		
	1996	1995	1994
Trade receivables	$ 3,731	$ (1,895)	$ (3,789)
Amounts receivable	221	391	1,922
Inventories (automotive)	2,817	(6,917)	(5,107)
Advances to and from related companies	(176)	(133)	(162)
Accounts payable and accrued liabilities	(6,167)	2,420	1,562
Prepaid expenses and other assets	468	(619)	(194)
Income taxes payable	(1,800)	1,643	157
Other liabilities	(502)	(1,814)	—
	$ (1,408)	$ (6,924)	$ (5,611)

(b) Cash paid for income taxes and for interest (net of amount capitalized) is as follows:

	Year Ended July 31		
	1996	1995	1994
Income taxes	$ 3,004	$ 581	$ 327
Interest (net of amount capitalized)	$ 266	$ 3,902	$ 2,555

19. EMPLOYEE BENEFIT PLANS

Equion maintains a noncontributory defined benefit pension plan covering substantially all employees. The plan provides pension benefits based on the employee's years of service and compensation. In all cases, funding is limited to amounts deductible for tax purposes and is at least equal to the minimum contribution required by law. The projected unit credit actuarial method is used to determine pension cost for financial accounting purposes.

Net periodic pension cost includes the following components:

	Year Ended July 31		
	1996	1995	1994
Service cost — benefits earned during the period	$ 156	$ 367	$ 366
Interest cost on projected benefit obligation	143	345	294
Actual return on assets	(116)	(533)	(90)
Net amortization and deferral	(13)	271	(128)
	$ 170	$ 450	$ 442

Assumptions used in accounting for the plan were primarily as follows:

	Year Ended July 31		
	1996	1995	1994
Discount rate	7.75%	7.75%	7.5%
Rate of increase in compensation level	4.0%	4.0%	4.0%
Expected long-term rate of return on assets	9.0%	8.0%	8.0%

The following table sets forth the plan's funded status and amounts recognized in the Company's Consolidated Balance Sheet:

	July 31		
	1996	1995	1994
Actuarial present value of benefit obligations:			
Vested benefit obligation	$1,382	$1,198	$3,169
Accumulated benefit obligation	$1,480	$1,280	$3,529
Projected benefit obligation	$1,783	$1,629	$4,025
Plan assets at fair value	(1,467)	(1,257)	(2,911)
Projected benefit obligation in excess of plan assets	316	372	1,114
Unrecognized net gain	364	346	253
Pension liability in the balance sheet	$ 680	$ 718	$1,367

The defined benefit plan's assets are invested primarily in a diversified fund with a bank, including investments in bonds, equity securities, money market accounts, and short-term U.S. Treasury bonds.

Equion also sponsors a defined contribution and deferred compensation plan covering substantially all employees. Contributions are determined based on various methodologies including matching a certain percentage of each participating employee's contribution and contributing a specified percentage of covered employees' annual compensation each year. In addition, the employees share in year end profit-sharing distributions. The Company's expense for these plans approximated $252,000 ($1,152,000 — 1995; $1,156,000 — 1994).

20. COMMITMENTS AND CONTINGENCIES

(a) Minimum annual payments under the following commitments are:

Years ending July 31	Leased Premises	Other Leases	Management and Other Services	Total
1997	$544	$ 456	$370	$1,370
1998	247	403	—	650
1999	—	344	—	344
2000	—	223	—	223
2001	—	4	—	4
	$791	$1,430	$370	$2,591

Under the leases, the Company is responsible for taxes, insurance, and maintenance, no portion of which is set out in this note, and sub-leases part of its Canadian office space to one party for $62,000 annually (note 6(e)), and one other party for $38,000 annually. The fees commitment for management and other services expires on December 31, 1996, and will be reviewed at that time (note 6(d)).

(b) Letters of credit have been issued with respect to two land and housing development projects totalling $0.5 million at July 31, 1996 ($0.5 million — 1995), as well as for its associates' share of obligations in partnership and joint venture developments. In each case, assets of the partnership or joint ventures are adequate to satisfy such obligations. In addition, at July 31, 1995, $864,000 of letters of credit were issued to guarantee Equion's performance under certain purchase agreements.

(c) Litigation is continuing between the Company and 10 purchasers who defaulted on final closing of condominium units at Hidden Valley. The purchasers are claiming for deficiencies in original disclosure documents. The exposure for losses to the Company, if the claimants are successful, would approximate the $390,000 of paid deposits plus costs. The Company believes that the purchasers' claim is unlikely to succeed, and is claiming for breach of contract. The trial of this matter was completed in July 1996 and a decision is anticipated in the fall of 1996.

(d) Equion is a defendant in three lawsuits relating to product liability arising from accidents allegedly occurring in connection with the use of certain equipment which was formerly manufactured and/or distributed by Equion, and one wrongful termination lawsuit. The claimants allege substantial damages. Certain other similar lawsuits have been settled during past years without any significant adverse effect upon Equion. While the outcome of these lawsuits cannot be predicted with certainty, management, after consultation with legal counsel, is of the opinion, based on the facts known to it, that the liability, if any, from these lawsuits (to the extent not provided for by insurance or otherwise) will not have a material adverse effect upon the Company's consolidated financial position or its results of operations or liquidity.

(e) Equion has identified certain environmental matters relating to soil contamination and waste water treatment systems at certain of its manufacturing facilities. Based upon preliminary environmental assessments by independent consultants, the Company incurred $264,000 ($395,000 — 1995; $142,000 — 1994) of remediation cost during the year. The balance of the liability accrued at July 31, 1996 is $319,000. The remediation plans will require government review and approval.

21. SUBSEQUENT EVENTS

In August 1996, the Company completed the first of a two-stage sale of the aftermarket cooling business. Subject to the satisfaction of certain closing conditions, completion of the second stage is expected to occur before the end of calendar 1996.

22. COMPARATIVE FIGURES

Certain prior years' accounts have been reclassified to conform with the current year's presentation.

23. PRO FORMA INFORMATION (UNAUDITED)

Pro forma information is provided below for comparative purposes only and does not purport to be indicative of the results which actually would have been obtained if the transactions had been effected at the pro forma date, or of the results which may be obtained in the future. The first pro forma column gives effect to the acquisition of the minority interest in Equion and the sales of the TCI and Trans-Tool divisions and EDL, all of which occurred during the year. The second pro forma column reflects a further adjustment for the expected sale of Hayden's aftermarket cooling business.

The following pro forma operating results assume the acquisition and sales noted above had been completed at the beginning of the 1996 fiscal year. The recovery of income taxes on the pro forma losses assumes that the losses before income taxes would be applied against the gains realized on the sale of the business units.

Year Ended July 31, 1996	Historical	Pro Forma	Pro Forma
Net sales	$53,615	$32,644	$13,449
Gross profit	$13,015	$ 7,308	$ 3,709
Interest and other income	3,209	3,209	3,209
Expenses	(18,569)	(14,067)	(8,281)
Provision for diminution	(3,165)	(3,165)	(3,165)
Gain on disposal of assets	3,749	—	—
Restructuring costs	(500)	—	—
Loss before minority interest and income taxes	(2,261)	(6,715)	(4,528)
Minority interest	(890)	—	—
Income taxes	(597)	1,066	209
Net loss	$(3,748)	$(5,649)	$(4,319)

The pro forma operating results under the U.S. Basis would not differ in any significant respect.

Enscor Inc.

SELECTED FINANCIAL DATA
(Expressed in United States thousands of dollars except per common share amounts)

	Year Ended July 31			7 Months Ended July 31	Year Ended December 31				
	1996	1995	1994	1993	1992	1991	1990	1989	1988
Revenues	$56,824	$141,066	$126,554	$31,464	$29,701	$17,725	$59,138	$37,018	$22,523
Cost of sales and expenses	59,169	143,999	122,176	30,429	26,953	17,408	53,727	27,180	18,081
Provision for diminution in asset values	3,165	203	1,003	829	5,508	1,992	12,754	315	—
Earnings (loss) from operations	(5,510)	(3,136)	3,375	206	(2,760)	(1,675)	(7,343)	9,523	4,442
Share of income (loss) from investments	—	—	(94)	—	(353)	(1,194)	(707)	(648)	92
Gain on disposal of assets	3,749	21,541	—	—	—	—	—	—	—
Restructuring costs	(500)	(1,726)	—	—	—	—	—	—	—
Earnings (loss) before income taxes and minority interest	(2,261)	16,679	3,281	206	(3,113)	(2,869)	(8,050)	8,875	4,534
Income taxes — current	597	2,188	501	429	47	193	(4,296)	3,331	1,232
— deferred	—	(174)	222	(264)	(1,444)	(1,519)	834	1,062	736
Net earnings (loss) before minority interest	(2,858)	14,665	2,558	41	(1,716)	(1,543)	(4,588)	4,482	2,566
Minority interest	890	5,320	1,560	511	—	—	—	—	—
Net earnings (loss)	$(3,748)	$ 9,345	$ 998	$ (470)	$(1,716)	$(1,543)	$(4,588)	$ 4,482	$ 2,566
Net earnings (loss) per common share	$ (0.18)	$ 0.38	$ 0.02	$ (0.04)	$ (0.12)	$ (0.13)	$ (0.44)	$ 0.39	$ 0.24
Total assets	$36,089	$ 72,610	$ 93,635	$90,264	$35,373	$49,085	$69,141	$85,826	$51,224
Long-term debt, including current portion	$ 2,321	$ 7,005	$ 34,488	$35,094	$11,633	$23,713	$40,962	$36,827	$20,956
Redeemable preferred shares	$ —	$ 4,896	$ 4,896	$ 4,896	$ 3,400	$ 3,400	$ 2,155	$ 2,155	$ 2,155

See note 2 to the Company's audited consolidated financial statements included herein for a description of certain acquisitions and divestitures made by the Company during the periods presented. See note 14 for a reconciliation of certain of such data to U.S. generally accepted accounting principles.

Enscor Inc.

SUPPLEMENTARY DATA

QUARTERLY FINANCIAL INFORMATION

(Expressed in United States thousands of dollars except per common share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1996					
Net sales	$15,827	$11,877	$15,421	$10,490	$ 53,615
Interest and other income	908	501	665	1,135	3,209
Total revenues	$16,735	$12,378	$16,086	$11,625	$ 56,824
Gross profit	$ 4,156	$ 1,879	$ 4,051	$ 2,929	$ 13,015
Earnings (loss) before income taxes and minority interest	$ (409)	$(2,270)	$ 1,223	$ (805)	$ (2,261)
Net loss	$ (357)	$(2,715)	$ (185)	$ (491)	$ (3,748)
Net loss per common share	$ (0.02)	$ (0.12)	$ (0.01)	$ (0.03)	$ (0.18)
1995					
Net sales	$32,978	$32,443	$35,718	$37,763	$138,902
Interest and other income	751	307	431	675	2,164
Total revenues	$33,729	$32,750	$36,149	$38,438	$141,066
Gross profit	$ 9,014	$ 7,789	$ 9,789	$ 8,190	$ 34,872
Earnings (loss) before income taxes and minority interest	$ (223)	$ (929)	$ 40	$17,791(a)	$ 16,679
Net earnings (loss)	$ (231)	$ (854)	$ (116)	$10,546	$ 9,345
Net earnings (loss) per common share	$ (0.01)	$ (0.05)	$ (0.01)	$ 0.45	$ 0.38
1994					
Net sales	$26,680	$28,688	$33,984	$35,178	$124,530
Interest and other income	692	329	396	607	2,024
Total revenues	$27,372	$29,017	$34,380	$35,785	$126,554
Gross profit	$ 7,020	$ 8,809	$10,238	$11,272	$ 37,339
Earnings (loss) before income taxes and minority interest	$ (526)	$ 8	$ 1,592	$ 2,207	$ 3,281
Net earnings (loss)	$ (568)	$ (312)	$ 751	$ 1,127	$ 998
Net earnings (loss) per common share	$ (0.03)	$ (0.02)	$ 0.03	$ 0.04	$ 0.02

(a) Earnings before income taxes and minority interest for the fourth quarter of 1995 included a gain of $21.5 million on the Company's sale of the Signet division, and a charge of $1.7 million for restructuring costs related to the relocation of certain distribution facilities from California to Tennessee and the closure of the corporate office in Kentucky.

MARKET FOR THE REGISTRANT'S COMMON SHARES AND RELATED SECURITY HOLDER MATTERS

The Company's Common Shares were offered to the public on April 23, 1981, and thereafter, have been traded on the Over-The-Counter market in the United States. The current NASDAQ symbol is ENCRF. On December 17, 1987, the Company's Common Shares were listed for trading under the symbol ENZ on The Toronto Stock Exchange (Canada).

The high and low bid quotations on The Toronto Stock Exchange reported in Canadian dollars and the Over-The-Counter market reported in United States dollars by NASDAQ for each fiscal quarterly period indicated were as follows:

THE TORONTO STOCK EXCHANGE
(expressed in Canadian dollars)

	1996		1995		1994	
	High	Low	High	Low	High	Low
1st Quarter	$1.55	$1.00	$1.30	$1.15	$1.65	$1.35
2nd Quarter	1.40	0.90	1.25	1.10	1.60	1.25
3rd Quarter	1.30	1.00	1.75	1.10	1.65	1.20
4th Quarter	1.30	1.00	1.75	1.40	1.30	1.20

NASDAQ

	1996		1995		1994	
	High	Low	High	Low	High	Low
1st Quarter	$1.25	$0.69	$0.81	$0.75	$1.06	$0.94
2nd Quarter	1.06	0.68	0.81	0.75	1.13	0.88
3rd Quarter	1.00	0.68	1.06	0.69	1.00	0.75
4th Quarter	0.94	0.68	1.12	1.00	0.75	0.75

The Over-The-Counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not represent actual transactions.

As of July 31, 1996, there were approximately 1,600 Common shareholders of record. No dividends have been paid on the Common Shares. It is the Company's present policy not to pay cash dividends, but to retain earnings to finance expansion, growth, and investment. Payment of future dividends will be at the discretion of the Board of Directors and will be dependent on the Company's financial condition.

The Investment Canada Act ("ICA") provides that the acquisition of control of a Canadian corporation by a non-Canadian may be subject to review and approval under the ICA, and may be prohibited unless such acquisition is found by the responsible Minister of the Canadian government likely to be of net benefit to Canada.

Dividends paid on Common Shares owned by a non-resident of Canada are subject to Canadian withholding tax under the Income Tax Act (Canada). The general rate of Canadian withholding tax on dividends paid to a non-resident person is 25% of the gross amount of the dividends. This rate may be reduced where there is an applicable tax treaty in existence between Canada and the country of the non-resident dividend recipient.

Under the Canada-U.S. tax treaty, dividends paid by the Corporation to a resident of the United States are generally subject to a Canadian withholding tax of 15% of the gross amount of the dividends.

CORPORATE DIRECTORY

OFFICERS

Sam Reisman
Chairman and
Chief Executive Officer

Stephen R. Morrison
President

Martin Simon
Chief Operating Officer and
Chief Financial Officer

Gary Steinhart
Corporate Secretary

CORPORATE INFORMATION

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Legal Counsel:
Blaney, McMurtry, Stapells, Friedman

Auditors:
KPMG

Transfer Agent:
The R-M Trust Company

Trading Symbols:
TSE: ENZ
NASDAQ: ENCRF

DIRECTORS

Sam Reisman 2, 3
Chairman and
Chief Executive Officer
Enscor Inc.

Peter F. Chodos 1
Executive
Philip Environmental Inc.

Richard J. Dumler 1, 2
Vice President
Lambda Fund Management Inc.

Seymour Epstein 1
Chairman
Seyton Ltd.,
Video Age Ltd.,
and Imagineering Ltd.

Stephen R. Morrison 1, 2, 3
President
Enscor Inc.

Elan Pratzer
Executive
Elan Pratzer & Partners Inc.

ANNUAL MEETING

Shareholders are invited to attend the Annual Meeting in The Auditorium of The Toronto Stock Exchange, Toronto, Ontario, Canada, on January 16, 1997, at 4:00 p.m. (Toronto time)

FORM 10-K

Shareholders may obtain, without charge, a copy of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, by contacting:

Corporate Secretary
Enscor Inc.
156 Duncan Mill Road, Suite 12,
Don Mills, Ontario, Canada
M3B 3N2
(416) 449-3535

1. Indicates member of Audit Committee
2. Indicates member of Compensation Committee
3. Indicates member of Executive Committee

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